



**Washington Metropolitan Area Transit Authority
Inspector General's Semiannual Report to the
Board of Directors, No. 12
January 1, 2013 – June 30, 2013**



Photo of New Flyer 60' Hybrid/Electric Articulated Bus

INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

July 26, 2013

We are pleased to provide this Semiannual Report on the activities and accomplishments of the Washington Metropolitan Area Transit Authority (WMATA) Office of Inspector General (OIG) from January 1, 2013, through June 30, 2013. Our work, highlighted in this report, demonstrates our commitment to promoting accountability, efficiency, and effectiveness in WMATA's programs and operations and keeping the Board of Directors fully and currently informed about deficiencies in WMATA's activities, as well as the necessity for and progress of corrective action.

Over the last six months, OIG issued 21 audit products. We reviewed pricing information in contractors' proposals with a value of \$24,807,024 and suggested \$6,173,280 in net audit adjustments. Also, two of the 19 attestation reports we issued involved compliance with the Federal Transit Administration Buy America regulations. Specifically, we conducted a pre-award Buy America audit of the North American Bus Industries, Inc. (NABI) to furnish a selected number/type of buses. We also performed a post-delivery Buy America audit of Kawasaki Rail Car (KRC) to furnish a selected number/type of railcars. Based on our audit work, we ascertained that NABI and KRC are in compliance with "Buy America Requirements." We also issued two performance audit reports—Review of the Selection and Award Process of Metaformers Contract FQ-12208 and Review of WMATA's Closed Circuit Television (CCTV) Systems.

In addition, we closed 22 investigations and received 191 complaints during this time.

We appreciate the Board of Directors' and the General Manager/Chief Executive Officer's support of our office and look forward to working with them in promoting a safe and effective transit system. We will continue to make every effort to conduct our work efficiently, effectively, economically, and with utmost integrity.

/s/

Helen Lew
Inspector General

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INTRODUCTION

On August 19, 2009, the WMATA Compact was amended to recognize the OIG by statute. Board Resolution 2006-18, approved April 20, 2006, originally established the OIG to conduct and supervise audits, program evaluations, and investigations relating to agency activities; promote economy, efficiency, and effectiveness in WMATA activities; detect and prevent fraud and abuse in WMATA activities; and inform WMATA officials and the Board of Directors (Board) about deficiencies in WMATA activities, as well as the necessity for and progress of corrective action. The OIG follows generally accepted government audit standards for all audits and supervises WMATA's annual independent audit of financial reporting. The Inspector General (IG) reports to the Board through its Audits and Investigations Committee. The IG prepares a Quarterly Report to the Audits and Investigations Committee and a Semiannual Report to the Board.

The OIG began operations on May 14, 2007, when the current IG came on board. A mission statement and core values have been developed for OIG and are provided below.

Mission Statement

The OIG supervises and conducts independent and objective audits, investigations, and other activities of WMATA's programs and operations to promote economy, efficiency, and effectiveness, as well as to prevent and detect fraud, waste, and abuse in such programs and operations. We provide advice to the Board and General Manager/Chief Executive Officer to assist in achieving the highest levels of program and operational performance in WMATA.

Our Core Values

Excellence - We have a commitment to excellence in our people, our processes, our products, our impact and in the performance of our mission.

- We value a diverse, educated, and highly trained workforce that reflects independence, initiative, and mutual respect.
- We value operating within an objective code of standards, yet remain open to new innovations.
- We support WMATA's mission to provide safe, equitable, reliable and cost-effective public transit.

Accountability - We insist on high standards of professional conduct from employees at all levels and compliance with professional standards to ensure the Board and management can rely on our products.

- We have confidence in the accuracy of our work and that our results hold up to professional scrutiny.
- We encourage an environment of risk-free communication and promote an open, honest, and respectful exchange of ideas and information.

Integrity - We strive to maintain the highest level of trust and integrity in all of our activities, and the approach we take in accomplishing our mission must reflect fairness, balance, and credibility.

- The personal and professional qualities of our employees include honesty, respect for others, and freedom from bias.
- We value and protect our access to information recognizing that reputations, public confidence, and lives can be affected by our actions.

OIG Staff

OIG is made up of two components — Audits and Investigations. The Audits component is comprised of three audit teams: contracts, internal operations, and information technology. OIG audits examine the performance of WMATA programs and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of WMATA programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout WMATA. OIG audits are performed with OIG's own resources, and OIG oversees audit work done by outside audit firms.

The Investigations component of OIG conducts criminal, civil, and administrative investigations of fraud, waste, and abuse related to WMATA programs and operations. OIG investigations can lead to criminal prosecution, civil penalties, disciplinary action, and/or administrative action. The Investigations component handles the OIG Hotline, including in-take of complaints and determining the appropriate handling of them. Complaints may be investigated by OIG or referred to management, the Audits component for audit consideration, or another agency, as appropriate.

OIG had 30 full-time employees as of June 30, 2013, the majority of whom do audits. Our staff is comprised of auditors, investigators, a computer specialist, and an office manager with educational backgrounds and degrees in accounting, finance, mathematics, computer science, law, criminal justice, information assurance, and business. Half of the staff have professional certifications as accountants, internal auditors, fraud examiners, information systems auditors, certified information systems

security professional, certified information security manager, government financial managers, and inspectors general.

AUDITS

During this reporting period, we issued 21 audit products in the form of audit reports and alternative products, such as attestations.

Audit Resolution and Follow-Up

Board Resolution 2006-18 requires us to provide Semiannual Reports (SARS) listing each report for which management has not completed corrective action. Table 1 shows recommendations described in previous SARS on which corrective action has not been completed as of June 30, 2013.

Summary of Audit Reports Issued

We issued two audit reports during this reporting period. These reports are listed in Table 2 and are summarized below.

- **Review of the Selection and Award Process of Metaformers Contract FQ-12208** – (Information Technology No. 13-003, issued June 18, 2013). The objective of the audit was to determine whether adequate controls were in place to ensure WMATA was following policies and procedures during the vendor selection/award process for contract FQ-12208.

We determined WMATA did not properly follow its Procurement Procedures Manual (PPM) and Policy Memorandum in the selection and award process for contract FQ-12208 to Metaformers and lacks policy for time periods for publicizing a request for proposal (RFP). Specifically, WMATA did not (1) justify the use of a labor-hour contract, (2) provide sufficient time for potential offerors to respond to the RFP, and (3) properly document the procurement record after removing an evaluation factor.

To address the findings, we made three recommendations to the Deputy General Manager Administration/Chief Financial Officer to Direct the Chief Procurement Officer to (1) ensure the Office of Procurement and Materials (PRMT) personnel adhere to WMATA's Policy Memorandum for time and labor contracts, (2) define the time period for publicizing the solicitation for RFP and include the time period in the PPM, and (3) ensure PRMT personnel adhere to the PPM in the vendor selection and award process as it relates to changes in Authority Requirements.

Management agreed with two of the three findings. Although management disagreed with finding two, Management stated they will consider the time frame allocated for response on all General Services Administration RFPs in the future in order to ensure reasonableness in the response requirements for a solicitation.

- **Review of WMATA's Closed Circuit Television (CCTV) Systems¹** (Internal Operations No. 13-002, issued April 4, 2013). We conducted an audit of WMATA's CCTV Systems to determine whether adequate controls and oversight are in place to ensure WMATA's Closed Circuit Television (CCTV) systems are functioning properly to provide necessary security and safeguard assets.

We found WMATA does not have adequate controls and oversight in place to ensure CCTV systems are accounted for and functioning properly to provide necessary security and safeguard assets.

We found BUS CCTV and DriveCam cameras were generally adequate to ensure safety and safeguard WMATA assets.

We also identified an issue concerning the *Metrorail Emergency Response Maps* in station managers' kiosks. We found the book of *Metrorail Emergency Response Maps*, located in the rail platform station managers' kiosks, we visited, is outdated.

To address the findings, we made five recommendations to the General Manager/Chief Executive Officer. While management did not concur with all of our findings, they generally agreed with all of the recommendations.

Summary of Alternative Products Issued

From January 1, 2013, through June 30, 2013, we issued 19 attestation reports.

Our attestation engagements are performed within their stated scope and objective(s) as agreed with management and can cover a broad range of financial and non-financial subjects. They can also be part of a financial audit or performance audit. Because these reports generally involve contractor proprietary information, the reports are not posted on the OIG website and are not publicly distributed. A compilation of our attestation reports/certifications appears in Table 2.

Some key types of attestation reports issued by OIG include pre-negotiation, billing rate, and pre-award reviews. These are described more fully below along with the number of such reports issued this reporting period.

- **Pre-negotiation Attestation Reports (6 reports)**

This type of report generally relates to a review and analysis of a contractor's proposal to determine if the pricing information is current, accurate, and complete and ties back to the contractor's accounting systems. During the reporting period January 1, 2013, through June 30, 2013, we reviewed pricing information with a proposed value of \$24,807,024 and suggested \$6,173,280 in net audit adjustments. Some of the suggested adjustments involved unallowable cost, inflated cost, unsupported cost, etc.

¹ This report contains security related matters and is not posted on the OIG website and is not publicly distributed.

- **Billing Rate Attestation Reports** (7 reports)

At the request of WMATA's PRMT, we review the billing rates submitted by contractors and subcontractors to PRMT for approval. The primary objective of this review is to verify the basis of the billing rates and the support for the cost elements (base wage rates and overheads) included in the contractor's proposal and to ensure that the pricing information is current, accurate, and complete. The results of our review are sent to PRMT for use in the negotiation process.

- **Buy America Attestation Reports** (2 reports)

The Federal Transit Administration (FTA) requires a pre-award and post-delivery certification that the manufacture of the rolling stock vehicles (rail, bus and MetroAccess) is in compliance with the FTA Buy America Act regulations. The pre-award audit is conducted prior to the contract award and the notice-to-proceed. The post-delivery audit is conducted prior to delivery of the rolling stock vehicles. At the end of the reviews, certifications are issued stating whether the manufacturer is in compliance with the FTA Buy America regulations. During the reporting period January 1, 2013, through June 30, 2013, we issued two Buy America Attestation Reports.

- **Pre-award Attestation Reports** (3 reports)

Prior to the final determination of a contract award, the Contracting Officer sends financial data (Income Statements, Balance Sheets, Retained Earnings Statements, Source and Application of Funds and related notes), submitted by the prospective contractor to the OIG for evaluation. We conduct an agreed-upon procedure review to determine if the contractor has adequate financial resources (going concern) and whether the contractor meets the applicable standards for a responsible prospective contractor.

- **Other Attestation Reports** (1 report)

We also performed other attestation services as requested by PRMT. During this period, we conducted a rate review of general and administrative, overhead, payroll burden, fringe benefit rates, etc.

INVESTIGATIONS

From January 1, 2013, through June 30, 2013, we closed 22 investigations and received 191 complaints. During this reporting period, 196 complaints were closed, referred to management or referred for investigation. We opened 21 investigations and issued 10 Reports of Investigation. An Investigative Activity Statistical Profile is provided in Table 4.

OTHER OIG ACCOMPLISHMENTS

Other OIG accomplishments during this period included:

- Tumaniel Kessy, Senior Contract Auditor, Contracts Audit Team, became a Certified Internal Controls Auditor in May 2013.
- Barbara Jackson Williams, Audit Manager, Internal Operations Audit Team, gave a presentation on “Internal Controls” to WMATA Contracting Officer’s Technical Representatives (COTRs) on January 17, 2013, March 12, 2013, May 22, 2013, and June 27, 2013 at the Jackson Graham Building and the Carmen Turner Facility. Ms. Jackson Williams also facilitated training on “Control Self-assessment: An Introduction” and “Control Self-assessment: Facilitation Skills” before the Institute of Internal Auditors on April 8-11, 2013 in Miami, FL.

CONGRATULATIONS

- Gregory Spencer, Senior IT Auditor, began his employment with the OIG in January 2013. Prior to coming to WMATA, Mr. Spencer was the Audit Manager for the Office of the District of Columbia Auditor. He has over 17 years of auditing experience.
- Ngoc Chau, Auditor III, was promoted to Senior Auditor in April 2013. She started in August 2010 and is currently a member of the Contracts Audit Team.
- Cedric A Mitchell Sr., Special Agent, began his employment with OIG on May 13, 2013. Prior to joining OIG, he was a Detective with Metro Transit Police Department. He has 27 years of law enforcement experience, including subject matter expertise in the area of robbery pickpocket and identity theft.
- Latrice Mack, Auditor I, was promoted to Auditor II in June 2013. She started in December 2011 and is currently a member of the Contracts Audit Team.
- Kayon Graham, Auditor I, was promoted to Auditor II in June 2013. She started in January 2012 and is currently a member of the Contracts Audit Team.

FAREWELLS

- Tilahun Befikadu, Senior Auditor, resigned in February 2013. He was a member of the Contracts Audit Team.
- Christopher Lee, Auditor III, resigned in February 2013, to begin employment with a federal agency. He was a member of the Contracts Audit Team.
- Victor Kirk, Auditor III, resigned in June 2013, to begin employment with a private company. He was a member of the Internal Operations Audit Team.

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed as of June 30, 2013

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per WMATA Corrective Action Plan)
				Open	Complete	
Internal Operations Audits						
IO 13-001	Follow-up Review of WMATA's Environmental Management Problem (SAR 11, Page 4)	10/23/12		1	5	Jan. 2014
IO 12-002	Review of Internal Controls over the Collection of Metrorail Cash (SAR 10, page 7)	02/29/12		1	8	June 2013
IO CSA 11-001	Control Self-Assessment Employee Safety in the Office of Track and Structures Systems Maintenance (SAR 7, page 10)	09/08/10		3	16	June 2014
Contract Audit						
CA-11-045	Audit of Reported Paratransit Revenue and Ridership (SAR 9, page3)	10/03/11		1 ²	5	
Information Technology Audits						
IT 11-001	Review of Emergency Plans for Critical Information Technology Operations and Financial Systems (SAR 7, page 6)	09/24/10		2	3	Dec. 2013
External Audits						
	Single Audit Report for the year ended June 30, 2012 which includes the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program on an Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance With OMB A-133. (SAR 11, page 6)	10/19/12		2	4	Sep. 2013

² Management does not concur with Recommendation 3 and considers this issue to be a business decision outside the purview of the audit. No corrective action plan was submitted for this item. Since WMATA recently awarded a new paratransit contract, this recommendation no longer will be reported in Table 1 of future SARs.

Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities (January 1, 2013, through June 30, 2013)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
AUDIT REPORTS					
<u>Internal Operations</u>					
IO 13-002	Review of WMATA's Closed Circuit Television (CCTV) Systems	4/4/13			5
<u>Information Technology</u>					
IT 13-003	Review of the Selection and Award Process of Metaformers Contract FQ-12208	6/18/13			3
<u>Contract Attestations</u>					
<u>Pre-Negotiation Attestation Reports</u>					
CAA 13-008	Independent Review of Claim for Contract CQ10134	1/4/13			
CAA 13-009	Independent Review of Revised Sole Source Proposal for Contract CQ12251 – OrbCAD Software Maintenance	1/29/13			
CAA 13-010	Independent Review of Sole Source Proposal for Contract FQ13005 – Implementation of Identity and Access Management	2/12/13			
CAA 13-011	Independent Review of Revised Proposal for Contract FQ8143, PCO43 Additional B-Line Station Platform Repairs at 4 Existing Metrorail Stations Along the Red Line Metrorail System	5/30/13			
CAA 13-012	Independent Review of Sole Source Proposal for Contract FQ12146 Customer Information Electronic Display (CIEDS)	6/20/13			
CAM 13-028	Independent Review of Proposals for RFP No. FQ13049 Mobile Data Computers/Cellular Modems & Telematics	6/20/13			
<u>Billing Rate Attestation Reports</u>					
CAM 13-019	Independent Review of Proposed Rates for Contract FQ12001 Greenbelt Test Track and Commissioning Facility	2/26/13			
CAM 13-020	Independent Review of Proposed Rate for Contract FQ12001 Greenbelt Test Track and Commissioning Facility	3/13/13			

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
CAM 13-021	Independent Review of Proposed Rate for Contract FQ10218 Program Management Services	3/26/13			
CAM 13-024	Independent Review of Proposed Billing Rate for Contract FQ12001 Greenbelt Test Track and Commissioning Facility	6/7/13			
CAM 13-030	Independent Review of Proposed Rate for Contract FQ10218 "FQ10218 Program Management Services Option Year 1 – Overhead Rates and Overhead Rate Schedules"	6/25/13			
CAM 13-031	Independent Review of Proposed Rates for Contract FQ10218 Program Management Services Option Year 1 – Overhead Rates and Overhead Rate Schedules	6/28/13			
CAM 13-032	Independent Review of Proposed Rates for Contract FQ10218 Program Management Services Option Year 1 – Overhead Rates and Overhead Rate Schedules	6/28/13			
<u>Buy America Attestation Report</u>					
CAM 13-025	Post-Delivery Buy America Certification Audit for Contract RC 7000/RAM Three Hundred Sixty-Four (364) 7000 Series Rapid Transit Railcars	6/13/13			
CAM 13-029	Pre-Award Buy America Certification Audit for Contract FQ12269/JWW For Two Hundred Sixty-Four (264) 40-Foot Compress Natural Gas Buses, Two Hundred Sixty-Nine (269) 40-Foot Hybrid/Electric Buses, and Twenty-One (21) 60-Foot Hybrid/Electric Articulated Buses	6/24/13			
<u>Pre-Award Attestation Reports</u>					
CAM 13-022	Independent Review of Pre-Award Financial Data for Contract No. FQ12269/JWW "Heavy-Duty Transit Low Floor 40 Foot Compressed Natural Gas Buses, 40-Foot Hybrid/Electric Buses, 60 Foot Hybrid/Electric Articulated Buses"	5/21/13			
CAM 13-023	Independent Review of Pre-Award Financial Data for Contract No. FQ12262/NA "Rail Yard Hardening – New Carrollton Service And Inspection Yard (S&I), Brentwood Major Repair Yard, and Alexandria S&I Yard"	05/22/13			

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
CAM 13-026	Independent Review of Pre-Award Financial Data for Contract No.FQ13056/MR "Replacement of Chilled Water Air Conditioning Units, Metrorail System, DC, MD, and VA"	6/14/13			

Other Attestation Reports

CAM 13-027	Independent Review of Rate Information for Contract FQ9206, Orange/Blue Line Rehabilitation	6/19/13			
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* For purposes of this schedule, questioned costs include other recommended recoveries.

Notes:

Description of Alternative Products

Attestation reports convey the results of attestation engagements performed within the context of their stated scope and objective(s). Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit. They include examination, review or performance of agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting results.

Pre-award audit services are provided by OIG in response to requests by WMATA's contracting or program office staffs. These normally include making an assessment of an offeror's accounting system and financial capability to perform the contract.

**Table 3: Other OIG Reports on WMATA Programs and Activities
(January 1, 2013, through June 30, 2013)**

(None were issued this reporting period)

Report Number	Report Title	Date Issued
<u>Internal Operations - Alert Memorandums and Control Self-Assessment</u>		

**Table 4: Investigative Activity Statistical Profile
(January 1, 2013, through June 30, 2013)**

Statistic		No.
Complaints Received		191
Complaints Closed and Referred ³ (May Include Complaints Received in Earlier Reporting Period)		196
Investigations Opened		21
Investigations Closed		22
Reports of Investigations Issued		10
Matters Pending at end of Reporting Period (Investigations and Complaints)		28

³ Includes both complaints requiring investigative attention that did not result in an investigation and those referred directly to other complaint resolution processes.